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Items 3 and 4 of the provisional agenda*
Preliminary review and appraisal of the implementation of the outcome of the World Summit for Social Development

Consideration of further actions and initiatives to implement the commitments made at the Summit

Contributions by relevant organs, funds and programmes, and specialized agencies of the United Nations system

Note by the Secretariat

Addendum

Contribution from the United Nations Children's Fund

The Secretariat circulates herewith for the information of the Preparatory Committee the attached report of the United Nations Children's Fund, which is available in English only.

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Annex

Input of the United Nations Children's Fund to the preparation of the report on the implementation of the Copenhagen Declaration on Social Development and the Programme of Action

The WSSD Programme of Action endorsed the end-decade goals for children set by the World Summit for Children (WSC, 1990). Available data suggest that general progress has been made towards the end-decade goals. However, it appears that achieving the year 2000 goals will be difficult at the global level and many regional levels without a major acceleration in the pace of progress. The prospects for children can be improved significantly by efforts at the country level together with renewed support by the international community - especially in the form of financial resources.

Periodic reviews of progress toward the WSC goals have taken place through regional ministerial consultations on children. Governments have reviewed progress towards the WSC goals and shared experiences and lessons-learned. Renewed commitment was made to accelerate progress towards the WSC goals despite economic setbacks, conflicts or natural disasters. The Bangkok Declaration (1998) and the Lima Accord (1998), for instance, set clear strategies and focus to guide actions in the remaining two years. The league of Arab States issued the Sana'a Declaration on accelerating progress towards the WSC goals.

Building on the success of the mid-decade review of WSC goals in 1996, more countries have improved the use and availability of data to reveal socio-economic, gender, urban-rural, ethnic and other disparities often concealed in national averages. UNICEF, together with other partners, has supported countries not only with data collection instruments of the highest technical standards but also with direct assistance in data analysis, policy advice and programmatic interventions.

Progress towards the major goals

This section reviews progress towards the major goals agreed upon in the WSC, which were endorsed by the WSSD.

Under five mortality

The Summit goal is to reduce the 1990 under-five mortality rate (U5MR) by one third or to 70 per 1,000 live births, whichever is lower by the year 2000. Based on currently available data, very few countries are on track to achieve the goal in sub-Saharan Africa and South Asia. The situation is somewhat better in the other regions, with the industrialized countries group being closest to achieving the goal, with over two-thirds of the countries on track to achieve a one-third reduction in U5MR.

There is continuing improvement in all regions, albeit at a decelerating pace in the 1990s compared with earlier decades and at a rate which is insufficient to achieve the end-decade goal. Major contributing factors to the slowdown are: (a) insufficient commitment and resources for the provision of essential services to disadvantaged communities to reduce the five major immediate causes of death of children under five years of age (acute respiratory infections, diarrhoea, measles, malaria and malnutrition); and (b) increased poverty and debt and the reduction in ODA noted earlier. The HIV/AIDS pandemic is undermining progress towards the end-decade goals. In 1997, the estimated proportion of deaths of children under five years of age due to HIV/AIDS was 4 per cent globally and 10 per cent in sub-Saharan Africa.

Maternal mortality

The goal is to reduce by half the 1990 levels of maternal mortality. WHO and UNICEF have estimated that in 1990, around 585,000 women died from pregnancy related causes. One of the process indicators which is increasingly being recommended for population-based monitoring is the *proportion of births attended by skilled health personnel*. Preliminary data suggest that there has been only a very slight improvement over the last decade. For developing countries, the proportion of births attended by a skilled health officer increased from 53 per cent in 1990 to 58 per cent in 1997, which represents a change of only about half a percentage point per year. Process indicators on the availability and use of obstetric services published by UNICEF, WHO and UNFPA in 1997, are now beginning to be used in a number of countries.

Child malnutrition

The goal is to reduce by half the 1990 levels of severe and moderate malnutrition among children under five years of age. Data on child malnutrition from the Administrative Committee on Coordination Subcommittee on Nutrition show that the situation has continued to improve since 1990, albeit at a slower pace than in the 1980s. Global estimates show a decline from 34 per cent in 1985 to 31 per cent in 1990 and 29 per cent in 1995. These estimates are being updated to include projections for the year 2000 but final results are not yet available. However, it is clear that for most countries, the rate of decline is substantially below what is required to achieve the goal.

Improving the status of women and advocacy for more and better public spending in the social sector contribute to reducing malnutrition. The importance of low birth weight is increasingly recognised. Half of the 22 million low birth weight babies born in the world each year are born in South Asia, where 30 per cent of all births are low weight and 60 per cent of women of child bearing age are themselves underweight.

Exclusive breast-feeding is an important action that can help maintain normal growth until six months of age. The percentage of infants exclusively breastfed through the third months of life by region is: Sub-Saharan Africa 31 per cent; Latin America and Caribbean 39 per cent; South Asia 45 per cent; Middle East and North Africa 47 per cent; East Asia and Pacific 56 per cent. There is evidence from many countries that exclusive breastfeeding rates have increased substantially in this decade.

The Baby-Friendly Hospital Initiative, which aims to protect and promote exclusive breast-feeding, is now operational in nearly 15,000 maternity facilities in 125 countries. Twenty countries have now adopted the International Code for the marketing of breastmilk substitutes in law.

Progress was made in addressing vitamin A deficiency, iodine deficiency and anaemia. A total 43 countries where vitamin A deficiency is a public health problem added vitamin A supplementation with NIDS. Remarkable progress was made towards the reduction of iodine deficiency disorder. The proportion of the world's edible salt iodized increased from about 56 per cent in 1997 to about 65 per cent at the end of 1998.

Basic education

The goal is to achieve universal access to basic education and completion of primary education by at least 80 per cent of primary-school-age children by the end of the decade. Reduction of gender disparities is also part of the goal.

The number of children in primary school continues to increase both globally and for all regions. The East Asia and Pacific region has achieved levels of net enrolment comparable to industrialized countries, and Latin America and the Caribbean region continues its steady progress. The gains of the 1980s in the Middle East and North Africa region appear to be flattening in the 1990s. Both South Asia and sub-Saharan Africa were at about the same enrolment level in 1980, but South Asia appears to have made more progress. However, this assessment for South Asia is based on uncertain data. Sub-Saharan Africa, excluding South Africa, has yet to make up for the fall in the enrolment ratio in the 1980s, and still has more than a third of its young children not attending school.

Armed conflict and debt play a significant role in the education situation of sub-Saharan Africa, with armed conflicts affecting nearly half the countries, and three-quarters of the countries heavily indebted. Large class size, poor teacher education, crumbling buildings and lack of learning materials in countries all reduce the education capacity and quality in the region.

Worldwide, an estimated 130 million primary-school-age children are not in school, and more than 150 million teenagers have not reached a minimum level of education (grade 5) before they leave school. Although gender disparity has been reduced, it still remains a significant issue in South Asia, in the Middle East and North Africa, and in sub-Saharan Africa.

Water and sanitation

The goal is to achieve universal access to safe drinking water and to sanitary means of excreta disposal. Current estimates suggest this is far from being achieved, due to a wide variety of factors which include: the enormity of the task, with over 5 billion people to be covered; the increasing difficulties with obtaining water; conflicts which have disrupted systems and sources; more limited financial resources, such as ODA, particularly in areas most in need; etc.

Difficulties in measurement, are an added complication. Hence the present document reports on the current situation, and its distance from universal access, rather than on change since 1990. All regions have a considerable way to go to achieve universal safe water coverage, although three regions, Middle East and North Africa, South Asia and Latin America and Caribbean, report around 80 per cent coverage. The lowest coverage, of about 50 per cent, is in sub-Saharan Africa. In sanitation, the coverage of sub-Saharan Africa is not the lowest, with South Asia and East Asia and Pacific reporting less than one-third of their population covered. The highest sanitation coverage is in the Middle East and North Africa, and Latin America and Caribbean regions, where about two-thirds of the people are covered. On average, rural coverage is lower than urban coverage for both water and sanitation, though the coverage of the urban poor is also low.

Child protection

The goal is to improve protection of children in especially difficult circumstances. It was not expressed in quantitative form, however, progress can be assessed through qualitative indicators.

There is increased awareness on child protection issues globally. Following the ratification of the Convention on the Rights of the Child (CRC) by 191 out of 193 countries, State parties have addressed child protection issues in their progress report to the CRC Committee, and reflected these issues in national policies.

Much progress has been made in reviewing national laws that relate to children and in developing recommendations for revisions and new legislation. Many countries have taken action to improve law enforcement and legal justice systems, including constitutional reforms designed to improve respect for the rights of children and adolescents, and the adoption of a children's bill to provide a comprehensive legal framework to implement the CRC which consolidates all the laws relating to children into a single piece of legislation. CRC sensitisation and training for police has been organised in several countries.

The Ottawa Convention on a total ban on the production, stockpiling and sale of landmines has recorded 135 signatures and 67 states are now bound by it. There has been growing awareness on the magnitude of the deaths and disabilities caused by landmines.

Rehabilitation of children affected by war, demobilisation of child soldiers, psychosocial assistance and therapy, and trauma counselling with a particular attention to girls have been increasingly supported. Service delivery to and social reinsertion of displaced children and refugees have been supported in many countries hit by war and conflict.

Considerable progress has been made in addressing child labour issues. Many countries have included the issues in their child programmes providing alternative education opportunities and basic health care services for child labour. The Global March Against Child Labour which occured world-wide from January to June 1998 culminated at an ILO conference to discuss a new convention on the Worst Forms of Child labour. The conference also adopted a 'Declaration on Fundamental Principles and Rights at Work and its Follow-up in which member countries are obligated to promote and realise the effective elimination of child labour. There has also been increased collaboration between UNICEF and the World Bank in child protection areas, especially in child labour.

More actions have been taken in addressing the striking impact of HIV/AIDS pandemics. Many countries have begun to develop strategies to reduce mother-to-child transmission, to support home-based and community care for young people. Some new initiative activities have been developed to raise awareness for prevention and attitudes about persons living with HIV/AIDS.

Further actions needed to accelerate progress

The foregoing analysis indicate that many countries will not fully deliver on the promises made to children at the summit in 1990. The experience over the past years suggest a number of very specific actions to accelerate progress towards the goals, if resources and political commitment exist. There is also strong evidence to indicate that investing in children, particularly in the very early years generate significant economic and social returns. Despite the availability of this knowledge resource allocations fall far shorter than what is required, not always because they are unavailable but because of the lack of political will to make the hard choices when appropriating available resources. No amount of external aid alone can solve the problems children face in a country unless national commitment and desire exist to make a difference for its own children even in difficult econonic and political circumstances.

Several developing countries are committed to allocating 20 per cent of their national budget to basic social services, as stated in the WSSD Programme of Action. Since 1995 there is further development towards the 20/20 initiative. At the inter-regional meeting on the 20/20 initiative in Hanoi in 1998, developing and developed countries renewed their commitment to increase allocations to basic social services and to enhance the equity and efficiency in their use. The Hanoi meeting enhanced the level of expertise by introducing the first comparative statistics on the level, the distribution and the efficiency of public and donor spending on basic social services for about 30 countries. This was a first step to give special attention to the 20/20 initiative at the UN Special Session in Geneva

The achievement of the global goals set by the summit are a challenge to the entire international community. The international community tacitly agreed to support national efforts. The latest analysis of the trends and issues in the supply of aid by OECD/DAC confirm the decline in aid to the poorest countries as well as to the social development goals set in the plan, *Shaping the 21 st Century : The contribution of Development Co-operation.* An acceleration in the progress towards the goals will require reversing of the decline in ODA trends in general and increasing allocation to basic social services and to the countries who are lagging behind on the goals.

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Annex

New challenges for employment policy

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1. Introduction

The world employment situation has worsened since 1995. In March that year the World Summit for Social Development adopted as one of its ten commitments the goal of attaining full employment. Since then, as reported in the United Nations secretariat's papers on progress in implementation,[1] there have been many efforts worldwide to increase the rate of job creation and to reduce unemployment and underemployment. However, the recent turbulence and consequent decline in growth in the global economy have in many cases overwhelmed the positive impact of these efforts.

The most serious setback has been in South-East and East Asia where the severe financial crisis that began in Thailand in mid-1997 has led to the major contraction of several of the worst affected economies. This has resulted in massive and rapid job losses in Indonesia, Thailand and the Republic of Korea, where open unemployment rates have increased threefold and are expected to remain at these unprecedentedly high levels at least until the end of this year. Even in less severely affected economies such as Hong Kong, China, Malaysia and Singapore, unemployment rates have doubled.[2] These developments are especially significant because all these economies had, for several decades before the crisis, experienced very rapid economic *and* employment growth. As a result, unemployment rates as low as 2 per cent were achieved in all cases except in Indonesia. These newly industrializing economies of Asia thus featured prominently among the select group in the world economy that were able to maintain full employment.

The sharp reversal of employment trends in these countries therefore not only constitutes a significant negative development in the world employment picture but also highlights new challenges for employment policy in the global economy. Prior to the crisis these countries had often been cited as exemplars of the positive impact of globalization in raising rates of economic growth and job creation. This in turn had led to rising living standards, broadly diffused social progress and a significant reduction in poverty. The policies that made this possible, such as the promotion of labour-intensive exports, trade liberalization, the attraction of foreign direct investment, the maintenance of prudent macroeconomic policies and the emphasis on investment in education, were widely considered to be models for emulation by other countries.

What the crisis has now revealed is that, while essential, this set of policies was not sufficient. The rapid globalization of the world economy has posed new challenges which have made the goal of maintaining full employment a more complex undertaking. Foremost among these new challenges is the handling of financial liberalization in the context of increasing globalization of financial markets. A second challenge is that of developing the economic and social institutions and policies that are required to maximize the benefits and minimize the costs of increasing integration into the global economy. This covers a range of issues that include ensuring transparency and democratic accountability in policy-making and the efficient functioning of markets; facilitating smooth labour market adjustments in the face of heightened economic restructuring; and providing a greater degree of social protection against the increased risk of economic crises and other sources of economic insecurity.

After a brief review of recent trends in employment and economic growth in different parts of the world, the rest of this paper will address these new challenges to employment policy.

[1] Preparatory Committee for the Special Session of the General Assembly on the Implementation of the Outcome of the World Summit for Social Development and Further Initiatives, first session, New York, 17-28 May 1999, document E/CN.5/1999/4 and document A/AC.253/7.

[2] E. Lee: *The Asian financial crisis: The challenge for social policy* (Geneva, ILO, 1998).

2. Growth and employment trends in the global economy

The rate of growth of real GDP in the world economy slowed considerably in 1998 and 1999 compared to the 4.2 per cent growth that had been achieved in 1996 and 1997.[3] It declined to 2.5 per cent in 1998 and is likely to be around 2.0 per cent in 1999. This is in striking contrast to the growth rate of 5.1 per cent achieved between 1966 and 1973 and the average rate of slightly over 3 per cent sustained between 1974 and 1990. The main factors behind the recent slowing of economic growth have been the Asian financial crisis, its contagion effect on other regions and the worsening recession in Japan. The Asian crisis and the Japanese recession gave a strong negative impulse to world growth, since the countries involved had been a major source of economic dynamism. The Russian crisis added a further shock and resulted in a tightening of credit conditions for emerging market economies. This in turn contributed to the crisis in Brazil and to its contagion effect on some other Latin American economies. The recovery in most major European economies has also been dampened.

These developments have had a negative impact on employment in most parts of the world. For developing countries as a whole growth has declined from 5.7 per cent in 1996 to 3.3 per cent in 1998. It is expected to decline further to 1.5 per cent in 1999. Parallel to this the growth of exports, hitherto a major engine of growth, has also slowed considerably, while the prices of primary commodities have declined.

The region that suffered most was undoubtedly South-East and East Asia, where growth declined precipitously from 7 per cent or more in 1997 to -7 to 13 per cent in the worst affected countries. In addition, unemployment has risen to a post-war high in Japan, while a combination of lower growth and an intensification of economic restructuring has led to a deterioration of the unemployment and underemployment problem in China. Similarly, the slowing of growth in South Asian economies, especially in Bangladesh and Pakistan, will have had a negative impact on employment growth.

In Latin America the contagion effect of the Asian crisis and the decline in commodity prices have caused an abrupt break in the return to higher growth that had been achieved in the early to mid-1990s. For the region as a whole growth is expected to decline from 5.2 per cent in 1997 to -0.2 per cent in 1999. In Brazil GDP is expected to contract by around 4 per cent in 1999, while Argentina is expected to shift to zero growth in the same year. Colombia, Ecuador, Uruguay and Venezuela are also forecast to experience negative growth in 1999. This slowdown in growth will undoubtedly have a negative impact on labour markets, with a rise in open unemployment and an exacerbation of underemployment in the informal sector.

In Africa the slowdown in growth is expected to be very slight overall. However, two major economies, Nigeria and South Africa, will experience considerably slower growth than previously, while several others will be adversely affected by declining commodity prices. This again will have a negative impact on employment growth. Similarly, in the Middle East the sharp fall in oil prices in the wake of the Asian crisis has led to a sharp decline in growth rates in the oil-exporting countries. The negative repercussions of this on other countries in the region have been felt through declining demand for exports and reduced opportunities for international migration.

Turning to the transition economies, the impact has of course been felt most strongly in the Russian Federation after its own serious financial crisis in mid-1998. GDP in the Russian Federation declined by 4 per cent in 1998 and is expected to decline by a further 7 per cent in 1999. More generally, the effect of the global economic crisis in many transition economies has

[3] International Monetary Fund: *World Economic Outlook* (Washington, May 1999); and World Bank: *Global Development Finance* (Washington, 1999).

been to disrupt their recovery from the major economic contraction experienced in East and Central Europe and in the former Soviet Union in the early 1990s. For the transition economies as a whole there will be a return to (slightly) negative growth following the one year of positive growth that was achieved in 1997. Again, this will prevent any amelioration of the serious unemployment situation that has emerged since the beginning of the transition process.

The developments described above underscore how dependent employment is on economic growth. A slowdown in growth or a recession has immediate negative effects on employment. Conversely, it reaffirms the fact that a high and steady rate of growth is a necessary condition for progress towards full employment. It has also demonstrated how, with increasing globalization, economic crises in one set of countries can threaten the stability of the world economy and lead to a significant lowering of growth rates worldwide. There is thus a strong common interest for all countries to act together to reduce the risk of instability and to revive growth in the global economy.

The easing of monetary policy in the United States and the European Union that began in the last quarter of 1998 has played a major role in averting a global financial and economic crisis. But there continue to be significant uncertainties. A priority is therefore that the major industrial countries continue to take the necessary coordinated action to revive growth in their respective economies. The United States needs to guard against an abrupt end to its recent sustained period of growth, while the European Union should continue to counteract its recent slowdown in growth. A special responsibility rests with Japan to persevere in its efforts to reflate the economy out of the stagnation that began in the early 1990s and the current recession. Economic recovery in Japan is important not only for reviving global growth but also for supporting recovery in the crisis-stricken South-East and East Asian economies.

Given the weight of the industrialized countries in the world economy, successful efforts on their part to revive growth will give a decisive boost to world demand and provide a more supportive environment for economic recovery in crisis-affected countries, as well as for a return to higher growth in other developing and transition economies. But this will need to be matched, in particular, by domestic efforts to promote economic recovery in the crisis-affected Asian countries. The need for crisis-affected countries in other regions to achieve economic recovery is no less pressing. Because of the weight of their economies in their respective part of the world, this is particularly true of Brazil and the Russian Federation.

3. Financial liberalization and employment

It is clear from the above that the recent wave of financial and economic crises in the world economy has not only had a devastating negative impact on employment in the worst affected countries but has led to a general worsening of the employment situation in many other countries too. How to reduce the risks of financial crises is thus a question of considerable importance for the achievement of full employment throughout the world.

An important part of the solution to this problem lies, of course, in current efforts to reform the international financial system. But this is likely to be a prolonged process, since there is as yet no consensus on what shape the new system should take. Moreover, no new arrangement is ever likely to provide a system that is fail-safe irrespective of domestic policies. It is thus important to examine these domestic policies and their potential impact on employment.

A key policy issue is the extent and pace of financial liberalization, particularly with respect to the removal of capital account controls. There is broad agreement that hasty financial liberalization without prior development of a sound regulatory framework for the banking and corporate sectors greatly increases a country's vulnerability to financial crises. This arises because of the increased fragility of the financial system in the absence of adequate regulation of the new freedom to borrow internationally. Increased exposure to risky, unhedged short-term foreign loans, whether directly by banks or through the corporate sector, usually results from

inadequate monitoring and regulation of these operations by the monetary authorities. The shortage of the requisite loan and risk management skills in the banking system itself also accentuates the fragility of the system. Another contributing factor is the fact that the social costs of foreign borrowing are not internalized by private borrowers, which leads to excessive borrowing in the aggregate. The combination of these factors means that financial liberalization has often been accompanied by a large surge of capital inflows, especially short-term loans that greatly increase a country's vulnerability to currency and financial crises.[4]

These large capital inflows have other negative effects on the domestic economy. For example, excessive borrowing may lower the capital-output ratio by accommodating more risky investments or those with lower returns, often fuelling asset bubbles in real estate and stock markets. This type of misallocation of investment is clearly undesirable for standard economic reasons but it is also important to note, from the standpoint of employment policy, that jobs linked to such allocated investment are not sustainable over the long term.

Financial liberalization should thus be preceded by the strengthening of the financial sector as well as the capacity to regulate it. The financial system needs sound accounting procedures and disclosure rules in order to increase the transparency of the operations and the viability of the banks. It also needs people who are equipped with the necessary skills in risk and loan management. At the same time, the regulatory authorities have to develop the capacity to monitor the extent of borrowing and its term structure in order to avert the problem of exposure to over-leveraged, unhedged, short-term foreign borrowing. Serious consideration needs to be given to Chilean-style controls over short-term capital inflows, since a surge in such flows entails the most serious exposure to financial crises.

Another major issue is that, at the same time that financial liberalization increases a country's vulnerability to financial crises, it also seriously constrains its capacity to deploy counter-cyclical macroeconomic policies to reduce the contractionary effects of the crisis on the real economy. This arises because, in the absence of capital controls, it is no longer possible to use monetary policy to counteract the recessionary impact of a financial crisis. A lowering of the interest rate will provoke further capital outflows and a decline in the exchange rate. Indeed, the usual policy prescription has been to resort to massive increases in interest rates in an attempt to staunch capital outflows and prevent a further depreciation of the currency. Unless this measure is successful in quickly restoring confidence in financial markets (and this has not always been the case) it typically provokes a severe economic contraction, since it reduces the availability of credit and greatly increases the cost of debt-servicing by enterprises.

A similar constraint applies with respect to the possibility of using expansionary fiscal policy to moderate the crisis-induced economic contraction. The cost of domestic debt-servicing increases sharply with the raising of interest rates to restore stability in the currency market. More importantly, the reaction of financial markets to increased fiscal deficits is typically negative.

The upshot is that ill-prepared and hasty financial liberalization increases the risk of a financial crisis at the same time that it greatly diminishes the means of moderating its negative effects. This suggests that great caution is required in the handling of financial liberalization, especially since the argument that financial liberalization will yield significant benefits is not strong.[5] Countries that have not removed controls over the capital account have nevertheless been

[4] C. Wyplosz: *Globalized financial markets and financial crises*, paper presented at the Conference on "Coping with Financial Crises in Developing and Transition Countries: Regulatory and Supervisory Challenges in a New Era of Global Finance" organized by the Forum on Debt and Development, Amsterdam, 16-17 March 1999.

[5] D. Rodrik: *Who needs capital-account convertibility?*, paper written as a contribution to a symposium, to be published as part of a Princeton University *Essay in international finance*; and J. Bhagwati: "The capital myth: The difference between trade in widgets and dollars", in *Foreign Affairs*, May-June 1998.

able to achieve high and sustained rates of economic growth. They have at the same time been more insulated from the devastating costs of financial crises while still being able to attract substantial inflows of direct foreign investment. China is a case in point, as was the experience of Japan and the Republic of Korea in earlier decades. There is thus no compelling case for a headlong rush into financial liberalization.

While cautious domestic policy with respect to financial liberalization will help to reduce a country's vulnerability to economic crises, it can, by itself, neither eliminate such risks entirely nor provide better options for counteracting the contractionary effects of a crisis when it occurs. It will need to be supplemented by international action to reduce volatility in international financial markets and provide a better framework for the resolution of crises.

From the standpoint of employment and social concerns it is extremely important to find ways of resolving financial crises without having to go through severe economic contractions and a consequent sharp rise in unemployment and poverty. Early-warning systems for detecting increasing vulnerability to crises would allow for timely preventive action. Similarly, increased financing to roll over short-term debt would also help to reduce the contractionary effect of crises. More importantly, the institution of orderly arrangements for debt workouts involving major foreign lenders could go a long way towards avoiding massive panic withdrawal of funds. This would in turn reduce the likelihood of having to resort to draconian monetary and fiscal tightening that provokes a severe recession as the only means of resolving the crisis.

4. Globalization and employment

Apart from the issue of financial liberalization there are other aspects of the continuing globalization of the world economy that pose challenges for employment policy. Trade liberalization and the increasing mobility of foreign direct investment within global production systems are particularly important from this standpoint.

There is broad agreement in academic and policy circles that freer trade and flows of foreign direct investment will yield significant net economic benefits in terms of higher growth and employment creation. This will not, however, happen automatically. The likelihood of maximizing these benefits can be increased significantly through the adoption of policies that promote the efficient functioning of markets. From the standpoint of employment creation it will be particularly important to correct market failures that create biases against employment-intensive growth. These include a bias towards capital- and skill-intensive techniques of production on the part of both foreign and local firms. It will also be important to ensure that regulatory, credit market and other obstacles to the growth of enterprises, especially small and medium enterprises, are removed. This is a critical requirement for ensuring that the full potential of the new opportunities for increasing output and employment growth created by globalization is in fact realized.

There is, at the same time, growing recognition that the benefits of globalization are often accompanied by negative effects that need to be counteracted by policy and institutional reforms.[6] The main problems that globalization poses for employment and labour welfare are all linked to the fact that increased openness to foreign competition requires a greater degree of adjustment in production structures. For example, with trade liberalization production has to shift away from industries which cannot withstand the new competition from imports towards more competitive activities. This will mean job losses in non-competitive activities and a greater need for inter-sectoral mobility in the labour market. Where the initial levels of protection are high this can cause a sharp transitional rise in unemployment and significant hardship for job losers. The

[6] ILO: *Progress report on the country studies on the social impact of globalization* (Geneva, March 1999), Governing Body document GB.274/WP/SDL/2.

extent of the rise in unemployment will also depend on the rate of job creation in more competitive sectors and the effectiveness of measures to facilitate labour relocation.

The increased international competition brought about by globalization can negatively affect workers in other ways. It can increase income and employment insecurity where enterprises seek to respond to competitive pressures by downsizing, reducing wage and non-wage labour costs, and introducing more precarious employment contracts. An extreme manifestation of this concern is the fear that globalization might lead to a "race to the bottom" with respect to labour standards. Some have argued that the danger of this happening is greater because the bargaining position of business has been strengthened by the greater options enterprises now have to relocate their activities. This situation has arisen because of the increased scope for international outsourcing created by developments in information and communications technology, as well as by increased competition among countries to attract foreign direct investment. The latter could lead governments to lower labour standards as an inducement to investors. The threat to labour standards is also heightened by the decline in trade union strength in many parts of the world.

Greater integration into the global economy could lead to a rise in wage and income inequality. In the industrialized countries there is the fear that increased imports from low-wage economies with abundant unskilled labour will reduce the employment prospects and wages of their own unskilled workers. This will widen the polarization between skilled and unskilled workers. Although the significance of trade with developing countries in explaining the rise in wage inequality and deteriorating employment prospects for unskilled workers has often been exaggerated, there is wide agreement that it is nonetheless one of the contributing factors, albeit a minor one. In developing countries too there is concern about the rise in income inequality as a result of greater economic openness. While there is no evidence that this is a generalized problem, increased openness in some countries has been accompanied by a rise in wage and income inequality. In these cases it has been argued that the production technologies brought in by foreign firms as well as those introduced by local firms in response to international competition have tended to be more skill-intensive than were pre-existing technologies. This increases the demand for skilled labour relative to unskilled workers and hence tends to increase wage inequality. More generally, a major concern in developing countries is that inequality may rise because of the inability of backward areas and disadvantaged social groups to benefit proportionately from the new economic opportunities created by globalization.

5. Strengthening labour market institutions

The earlier discussion on financial liberalization and the increased vulnerability to economic crises that this has brought about point to a glaring shortcoming in current labour market institutions in developing countries, namely the absence of effective systems of social protection against the contingency of unemployment. The recent experience of the crisis-affected countries in Asia has shown how severe the toll in human suffering can be as a result of this. In the worst cases at least one out of 20 workers nationally lost their jobs within the space of six to nine months. The proportion of urban workers who suffered this fate was considerably higher. Except in the Republic of Korea, there was no unemployment benefit or other form of socially provided relief for these workers to turn to. Traditional strategies for coping with the loss of wage employment, such as recourse to informal sector employment and reliance on the extended family, could provide only minor relief, given the severity of the crisis and its economy-wide repercussions.

It is thus imperative that countries face up to the fact that employment policy is not only about the creation of jobs in normal periods of steady economic growth when there is full employment or only relatively low rates of unemployment. It is also very much about dealing with the consequences of rapid job loss during economic crises and periods of economic restructuring.

The earlier discussion of globalization reinforces this crisis-based argument for the strengthening of social protection. That discussion highlighted the fact that, independently of the risk of crises, increased openness implies a higher level of inter-sectoral flows in the labour market as economies adjust continuously to increased international competition. It may also entail a significant rise in the unemployment rate in the difficult initial period of adjustment after trade liberalization. In addition, the growth of precarious forms of employment increases the rate of labour turnover. For these reasons a higher proportion of the workforce is likely to experience spells of unemployment. This, together with the increased vulnerability to crises, makes it altogether necessary to put in place reliable mechanisms for providing timely income support to those in need both during normal times and, more challengingly, during severe economic crises. The result will be to provide greater income security for workers and, in turn, to facilitate the process of economic restructuring by promoting a more positive attitude among workers to job change.

An important means of achieving this objective is the introduction of unemployment insurance in the vast majority of developing countries where it does not exist. A few feasibility studies recently undertaken by the ILO have shown that such a system can be established at a very modest level of payroll taxes, can be largely self-financing and can provide critical income support for job losers even during the exceptional stress of a major economic crisis.[7] It is true that such schemes will cover initially only workers in the modern or organized sector of the economy, but this group constitutes a substantial share, or even a majority, of total employment in higher-income emerging market economies. It is also relevant to note that during the current Asian crisis most of the job loss has been concentrated in the modern sector of the economies affected.

In addition to unemployment insurance it will also be important to expand systems of social assistance to provide basic income support for those previously in the informal sector who have lost their livelihood and to those whose entitlement to unemployment benefits has been exhausted. Income support in this sense may include income in kind and subsidies for essential goods such as food, fuel and housing. For many developing countries the implementation of such safety-net policies poses considerable difficulties, of scale, design, organization and timing. Sufficient resources must be made available from general revenues both to provide means-tested income support for all those who need it and to underpin the active labour market policies which will promote re-employment. The necessary public services will have to be designed, organized and put in place quickly. But the recent experience of some transition economies and of the Republic of Korea shows that these difficulties can be overcome.

The introduction of unemployment insurance will need to be complemented by the adoption or strengthening of active labour market policies such as job search assistance, retraining and redeployment of unemployed workers, and the implementation of job creation programmes. By improving the functioning of the labour market, these policies facilitate structural change and promote higher levels of employment. They are also a necessary complement to social safety-net measures. By focusing on getting the unemployed back to work, they reduce the demand for passive income support while helping to maintain employability and the incentive to work.

6. The ILO Declaration on Fundamental Principles and Rights at Work

While the strengthening of social protection and active labour market policies will make a significant contribution to improving the welfare of workers in an era of globalization, these measures will not provide a durable solution unless they are accompanied by a move towards

[7] Lee, op. cit, Chapter 4.

substantive universal implementation of core labour standards covering freedom of association and the right to collective bargaining, the elimination of all forms of forced or compulsory labour, the elimination of child labour, and the elimination of discrimination in employment. It is relevant to recall in this context that Commitment 3 of the Copenhagen Declaration and Programme of Action included an undertaking *"to pursue the goal of ensuring quality jobs, and safeguard the basic rights and interests of workers and to this end, freely promote respect for relevant International Labour Organization Conventions, including those on the prohibition of forced and child labour, the freedom of association, the right to organize and bargain collectively, and the principle of non-discrimination"*.

The adoption by the International Labour Conference in 1998 of the ILO Declaration on Fundamental Principles and Rights at Work marks an important step forward in achieving universal implementation of core labour standards. The general directions that have been spelled out in the Declaration include, in addition to the regular supervisory machinery at the ILO, an increasingly effective and well-focused monitoring mechanism which allows the identification of areas of technical cooperation and advisory services to assist member States to overcome obstacles to the implementation of core standards. Other specific actions that could assist in overcoming these obstacles include research to demonstrate the economic and social benefits of moving towards full implementation of these standards and principles and the strengthening of national capacities to enact and implement them through such means as assistance in legal drafting, legislative and policy analysis, strengthening labour inspection and other services, and educational and training programmes for government officials and the social partners.

Full implementation of the core labour standards will constitute a vital safeguard against a deterioration of labour conditions in an era of heightened international competition. It will also provide the essential base from which institutions and policies to counteract the negative social effects of globalization discussed earlier can be built.

A fundamental step is the removal of the restraints on freedom of association that prevail in many countries. In some countries, there is no real freedom for workers or employers to form organizations at all; in others, a single trade union system is imposed by law or there are other restrictions on the right to organize which effectively negate any real freedom. In between are situations where there is a lack of positive encouragement for the growth of free and independent trade unions or a reluctance to accept them as a positive force in developing sound systems of industrial relations and tripartite consultative mechanisms on labour policy.

Several adverse outcomes flow from this basic deficiency. Firstly, the absence of a free and independent labour movement increases the likelihood that other fundamental worker rights, such as the elimination of child labour, forced labour and discrimination, will not be fully respected. This is because the exposure of actual abuses and demands for corrective action are less likely to occur. Secondly, the weakness of the labour movement rules out the constant democratic pressure that is required to ensure transparency and accountability in economic policies and a better social contract. This increases the risk of unchecked economic mismanagement that provokes financial crises and results in lower levels of social protection. Thirdly, in a situation of increased vulnerability to economic crisis, this institutional lacuna is a severe handicap in coping with the social consequences that might ensue. For example, the weakness of industrial relations systems at the enterprise and industry levels rules out such options as the adoption of arrangements to reduce job loss through work sharing, pay restraint and the orderly restructuring of enterprises. Similarly, the absence of mechanisms for tripartite social dialogue compounds the problem of maintaining social cohesion and averting industrial and social unrest during times of economic crisis. Without strong social partners it is impossible to build social consensus on measures for economic recovery involving a fair balance between the sacrifices required and the efforts undertaken by the government to relieve the social hardship provoked by the crisis. This in turn reduces the prospects for a speedy resolution of the crisis.

Another priority that is closely related to the issue of core labour standards is the strengthening of industrial relations systems and institutions for social dialogue. A fundamental

precondition for this is, of course, the existence of freedom of association. But even when this is guaranteed it will often be necessary actively to promote the process of institutional building through training and other assistance to trade unions and employers' organizations, the putting in place of the legal framework for collective bargaining and dispute resolution from the enterprise level upwards, and the creation of tripartite bodies at the regional, industrial and national levels. This type of promotional activity is especially important in countries that have recently made the transition from authoritarian political systems to democracy. In these countries there has been little past experience of free collective bargaining and social dialogue, and the necessary institutional framework remains to be developed. In other countries the main issues may have more to do with the reform of existing systems of industrial relations and institutions for social dialogue in the light of changes in the economic environment and the characteristics of the labour market.

7. Concluding remarks

This paper has sought to highlight some new challenges to employment policy that have become prominent in the light of developments in the world economy since the World Summit for Social Development in 1995. They should be considered as additional points for consideration over and above the principles for employment policy contained in the Copenhagen Declaration and Programme of Action, which remain valid. Similarly, the conclusions on employment policies adopted by the International Labour Conference in 1996 remain an invaluable guide to the range of policies that need to be adopted to achieve full employment in countries at all levels of development.[8]

[8] ILO: "Conclusions on employment policies in a global context adopted by the 83rd Session of the International Labour Conference, June 1996", in *World employment 1996/97: National policies in a global context* (Geneva, 1996), p. 201.